

2. **First Quarter 2004 Earnings Conference Call**

249. On May 15, 2003, Dell held a conference call to discuss first quarter FY 2004 earnings ("Q1 2004 Earnings Call"). On the Q1 2004 Earnings Call, Defendant Schneider falsely stated: "What is certain is that our strategy to drive for profitable share growth and extend further into the enterprise [market] has proven successful. . . ."

250. Similarly, on the Q1 2004 Earnings Call, a Dell representative stated: "[W]e believe and have communicated to you and your colleagues that we intend to grow both share revenues and improve profitability and we think that is a good long-term trajectory. . . ."

251. Furthermore, a Dell representative falsely and misleadingly stated: "If you look at a 29 percent unit growth for us, the market without us went up low-single digits, so this is one of our better growth premiums out in Europe. . . . You can see that from the standpoint of what happened to overall growth rate and then profitability. *That growth is part of the overall model and we see when we scale up with the business, we get great profits as well as market share gains and growth.*" (emphasis added).

252. Defendants knew, or recklessly disregarded, that the above statements concerning Dell's financial results and performance were false and misleading when made because Dell's reported results were based on misstated net revenue, operating income, net income and gross margin figures. As admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of

certain accounting errors and irregularities in those financial statements.” The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon. Finally, the Defendants fraudulently concealed that increases in Dell’s share (and the growth of its products) included increases from fraudulent activity.

3. 2004 Proxy

253. On May 30, 2003, Dell filed its proxy statement for 2004 with the SEC (“2004 Proxy”), in which the Company stated:

The Board of Directors believes that adherence to sound corporate governance policies and practices is important in ensuring that Dell is governed and managed with the highest standards of responsibility, ethics and integrity and in the best interests of its stockholders. The Board has adopted Principles of Corporate Governance, which provide an effective corporate governance framework for Dell, intending to reflect a set of core values that provide the foundation for Dell’s governance and management systems and its interactions with others.

254. Defendants knew, or recklessly disregarded, that the above statements concerning Dell’s purported adherence to sound corporate governance policies and practices were false and misleading when made because, rather than operating the Company in the best interest of stockholders, Dell manipulated its accounting to compensate for earning shortfalls, as described above. Moreover, these accounting manipulations were carried out by Dell to hide the true state of the Company from investors and so the Company’s “quarterly performance adjustments could be met.”

4. First Quarter 2004 10-Q

255. On June 16, 2003, Dell filed its Form 10-Q for the quarter ended May 2, 2003 (“Q1 2004 10-Q”). The Q1 2004 10-Q repeated the following false and misleading information in the Company’s Q1 2004 Earnings Release:

	In Millions of Dollars (except per share data)
Net Revenue	\$9,532
Operating Income	\$811
Net Income	\$598
Gross Margin	\$1,748
Total Stockholders' Equity	\$5,076
Total Liabilities	\$10,636

256. In discussing the Company's results for the quarter, the Q1 2004 10-Q stated:

During the first quarter of fiscal 2004, Dell's performance once again significantly exceeded the industry, resulting in Dell regaining the position as the world's No. 1 supplier of personal computer systems. Year-over-year unit shipments increased 29% while industry shipments declined 1% (excluding Dell), resulting in market share gains in every region and product line. Dell generated revenue of \$9.5 billion in the first quarter while operating income grew by 37% year over year to \$811 million. Conversely, Dell's top competitors collectively continued to experience declining revenues in their personal computer systems businesses. Additionally, Dell's continued focus on geographic expansion resulted in record unit shipments, revenues and operating income in both Europe and Asia Pacific-Japan as operating income outside the Americas nearly doubled from year ago levels. This strong performance was broad-based and led by our focus countries: United Kingdom, Japan, France, China and Germany. Dell also delivered strong liquidity during the quarter with cash flows from operations of \$812 million and cash and investments totaling a company record of \$10.3 billion at the end of the quarter.

257. In discussing the Company's gross margins, the Q1 2004 10-Q stated:

Gross margin as a percentage of net revenue increased from 17.2% in the first quarter of fiscal 2003 to 18.3% in the first quarter of fiscal 2004, while remaining flat sequentially. The year-over-year improvement in gross margin occurred primarily as a result of Dell's cost savings initiatives and declining component costs. As part of its focus on improving margins, Dell remains committed to reducing costs to maintain price leadership and improve profitability through four primary cost reduction initiatives: manufacturing costs, warranty costs, structural or design costs, and overhead or operating expenses.

258. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed

through operational means.” As a result of the Company’s fraudulent revenue recognition practices, its reported stockholders’ equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, “our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements.” The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

259. Also, Defendants knew, or recklessly disregarded, that the above statements concerning Dell’s operations in Japan were materially false and misleading and/or omitted material information about Dell’s use of fictitious transactions with its Japanese business. As admitted in Dell’s restatement, “[Dell’s internal] investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions.”

260. In an effort to reassure investors that Dell’s reports complied with GAAP, the Q1 2004 10-Q stated:

The accompanying unaudited condensed consolidated financial statements of Dell Computer Corporation (the “Company”) should be read in conjunction with the consolidated financial statements and notes thereto filed with the U.S. Securities and Exchange Commission in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2003. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to present fairly the financial position of the Company and its consolidated subsidiaries at May 2, 2003 and January 31, 2003, and the results of their operations and their cash flows for the three months ended May 2, 2003 and May 3, 2002.

261. Defendants knew, or recklessly disregarded, that its statements concerning Dell's adherence to GAAP and its purported revenue recognition practices were false and misleading when made because, as described above, Dell failed to adhere to its stated revenue recognition policies and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." Moreover, Dell's restatement admits that the Company did not follow GAAP when reporting its financial results during the Class Period.

262. The Q1 2004 10-Q contained the following false and misleading information concerning warranties:

NOTE 6 — AGGREGATE PRODUCT WARRANTY LIABILITY

Changes in the Company's aggregate product warranty liability are presented in the following table:

	Three Months Ended May 2, 2003
	(in millions)
Aggregate liability at beginning of period	\$1,309
Cost accrued for standard warranties and separately priced extended warranty and service contracts issued during the period	329
Obligations honored during the period	(232)
Aggregate liability at end of period	\$1,406

263. Defendants knew, or recklessly disregarded, that Dell's reported warranty figures were misstated because, as described above, Dell accelerated the recognition of at least some deferred revenue from extended warranties and under-accrued costs associated with basic warranties in violation of GAAP.

264. The Q1 2004 10-Q also included signed certifications from Michael Dell and Schneider in which each defendant stated:

1. I have reviewed this quarterly report on Form 10-Q of Dell Computer Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

265. Michael Dell and Schneider also filed signed certifications pursuant to Section 906 of the Sarbanes-Oxley Act stating that they "hereby certify that (a) the Company's Quarterly Report on Form 10-Q for the quarter ended May 2, 2003, as filed with the Securities and

Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company."

266. Michael Dell and Schneider knew, or recklessly disregarded, that the statements contained in their signed certifications filed with the Q1 2004 10-Q were materially false and misleading when made because, as admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting.

F. Second Quarter 2004 (For The Quarter Ended August 1, 2003)

1. Second Quarter 2004 Earnings Release

267. On August 14, 2003, Dell issued an earnings release announcing its financial results for the quarter ended August 1, 2003 (the "Q2 2004 Earnings Release"). The Q2 2004 Earnings Release, which was also filed with the SEC on Form 8-K, contained the following false and misleading financial information relating to the Company's second quarter results:

	In Millions of Dollars (except per share data)
Net Revenue	\$9,778
Operating Income	\$840
Net Income	\$621
Earnings Per Share (Diluted)	\$.24
Gross Margin	\$1,778
Stockholders' Equity	\$5,506
Total Liabilities	\$11,034

268. In commenting on Dell's performance for the quarter, the Q2 2004 Earnings Release included the following comments from Defendant Rollins: "We've again shown Dell's unique ability to profitably earn a larger share of business by focusing on standards-based technologies, managing costs and creating value for customers. . . . We've done that regardless of the pace of industry demand and the appetite of others to generate sales, even at a loss."

269. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income, earnings per share and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon. Rollins' comments regarding Dell were also false and misleading for the reasons stated herein.

2. Second Quarter 2004 Earnings Conference Call

270. On August 15, 2003, Dell held a conference call to discuss second quarter FY 2004 earnings ("2004 Q2 Earnings Call"). On the conference call, Defendant Schneider falsely and misleadingly stated: "We increased our worldwide share by 2.6 points year-over-year to 17.5%, maintaining a 20-plus point premium for the fifth consecutive quarter. And we delivered improved profitability as operating income dollars continue to grow faster than revenues."

271. Additionally, on the Q2 2004 Earnings Call, Michael Dell, on behalf of the Company, falsely and misleadingly stated: “[W]e have a profit discipline too. So, you know, you’re not going to see us just go after volume, you know, and see profits go away.”

272. Furthermore, on the Q2 2004 Earnings Call, Schneider added “[W]e had challenged everyone really to have the discipline to really keep this tight. . . . [W]e talked about competitive pricing, we felt like we just had to hold the line on op[erating] ex[penses] to achieve the results that we needed.”

273. Defendants knew, or recklessly disregarded, that the above statements concerning Dell’s financial results and performance were false and misleading when made because Dell’s reported results were based on misstated net revenue, operating income, net income, earnings per share and gross margin figures. As admitted by Dell’s restatement, the Company improperly recognized revenue throughout the Class Period and used “accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means.” As a result of the Company’s fraudulent revenue recognition practices, its reported stockholders’ equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, “our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements.” The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon. Finally, the Defendants concealed that increases in Dell’s share included increases from fraudulent activity.

3. Second Quarter 2004 10-Q

274. On September 15, 2003, Dell filed its Form 10-Q for the quarter ended August 1, 2003 ("Q2 2004 10-Q"). The Q2 2004 10-Q repeated the following false and misleading financial information in the Company's Q2 2004 Earnings Release:

	In Millions of Dollars (except per share data)
Net Revenue	\$9,778
Operating Income	\$840
Net Income	\$621
Earnings Per Share (Diluted)	\$.24
Gross Margin	\$1,778
Total Stockholders' Equity	\$5,506
Total Liabilities	\$11,034

275. In commenting on the Company's net revenues for the quarter, the Q2 2004 10-Q stated:

Net revenue was \$9.8 billion for the second quarter of fiscal 2004, an increase of \$1.3 billion from the same quarter last year. Net revenue increased to \$19.3 billion for the six months ended August 1, 2003, from \$16.5 billion for the six months ended August 2, 2002. The year-over-year increase in net revenue for the three and six months ended August 1, 2003 was driven by strong net unit growth across all regions and product lines, with an increase in product mix of enterprise systems from 20% to 21% of net revenue.

* * *

Americas — During the current quarter, Dell extended its No. 1 market share position by 4 points in the U.S. and the Americas overall. Year-over-year net revenue increased 12% and 13% during the three and six months ended August 1, 2003, respectively.

* * *

Asia Pacific-Japan — Dell generated year-over-year market share gains during the current quarter of 2.1 points with net unit growth of 46% in a market that increased only 7% (excluding Dell). Net revenue growth during the three and six months ended August 1, 2003 was broad based and increased year-over-year by 29% and 31%, respectively. This increase included combined net revenue growth of 31% in the focus countries of Japan and China during the current quarter.

276. In terms of the Company's gross margins, the Q2 2004 10-Q stated: "Gross margin as a percentage of net revenue improved to 18.2% during the second quarter of fiscal 2004, as compared to 17.9% in the second quarter of fiscal 2003. Gross margin was 18.3% for the six months ended August 1, 2003 and 17.6% during the same period last year. The year-over-year improvement was primarily driven by Dell's cost savings initiatives."

277. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income, earnings per share and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

278. Defendants also knew, or recklessly disregarded, that the above statements concerning Dell's operations in Japan were materially false and misleading and/or omitted material information about Dell's use of fictitious transactions with its Japanese business. As admitted in Dell's restatement, "[Dell's internal] investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems

integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions.”

279. Assuring investors that Dell’s reports complied with GAAP, the Q2 2004 10-Q stated:

The accompanying unaudited condensed consolidated financial statements of Dell Inc., formerly Dell Computer Corporation (“Dell”), should be read in conjunction with the consolidated financial statements and notes thereto filed with the U.S. Securities and Exchange Commission (the “SEC”) in Dell’s Annual Report on Form 10-K for the fiscal year ended January 31, 2003. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to present fairly the financial position of Dell and its consolidated subsidiaries at August 1, 2003 and January 31, 2003, the results of their operations for the three and six months ended August 1, 2003 and August 2, 2002, and cash flows for the six months ended August 1, 2003 and August 2, 2002.

280. Defendants knew, or recklessly disregarded, that Dell’s statements concerning the Company’s adherence to GAAP were false and misleading when made because, as described above, Dell failed to adhere to its stated revenue recognition policies and used “accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means.” Moreover, Dell’s restatement admits that the Company did not follow GAAP when reporting its financial results during the Class Period.

281. Additionally, the Q2 2004 10-Q contained the following false and misleading information concerning warranties:

NOTE 6 — AGGREGATE PRODUCT WARRANTY LIABILITY

Changes in Dell's aggregate product warranty liability are presented in the following table:

	Six Months Ended August 1, 2003
	(in millions)
Aggregate liability at beginning of period	\$ 1,309
Cost accrued for standard warranties and separately priced extended warranty and service contracts issued during the period	642
Obligations honored during the period	(464)
Aggregate liability at end of period	\$ 1,487

282. Defendants knew, or recklessly disregarded, that its warranty figures were misstated because, as described above, Dell accelerated the recognition of at least some deferred revenue from extended warranties and under-accrued costs associated with basic warranties in violation of GAAP.

283. The Q2 2004 10-Q also stated the following about Dell's controls:

Under the supervision and with the participation of Dell's management, including Dell's Chief Executive Officer and Chief Financial Officer, Dell has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934) within 90 days prior to the date of this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective in enabling Dell to record, process, summarize and report information required to be included in Dell's periodic SEC filings within the required time period. Additionally, there have been no significant changes in Dell's internal controls or in other factors that could significantly affect internal controls subsequent to the date that Dell completed its evaluation.

284. The Defendants knew, or recklessly disregarded, that the foregoing statements regarding the effectiveness of Dell's controls were materially false and misleading when made. As admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ

persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting.

285. The Q2 2004 10-Q also included signed certifications from Michael Dell and Schneider in which each defendant stated:

1. I have reviewed this Quarterly Report on Form 10-Q of Dell Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or

persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

286. Michael Dell and Schneider also filed signed certifications pursuant to 18 U.S.C. § 1350 stating that they "hereby certify that (a) Dell's Quarterly Report on Form 10-Q for the quarter ended August 1, 2003, as filed with the Securities and Exchange Commission (the 'Report'), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Dell."

287. Michael Dell and Schneider knew, or recklessly disregarded, that the statements contained in their signed certifications filed with the Q2 2004 10-Q were materially false and misleading when made because, as admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting. Additionally, Michael Dell and Schneider's Section 1350 certifications were false because Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of

certain accounting errors and irregularities in those financial statements.” The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

G. Third Quarter (For The Quarter Ended October 31, 2003)

1. Dell's Third Quarter 2004 Earnings Release

288. On November 13, 2003, Dell issued an earnings release announcing its financial results for the quarter ended October 31, 2003 (the “Q3 2004 Earnings Release”). The Q3 2004 Earnings Release, which was also filed with the SEC on Form 8-K, contained the following false and misleading financial information relating to the Company’s third quarter results:

	In Millions of Dollars (except per share data)
Net Revenue	10,622
Operating Income	\$912
Net Income	\$677
Gross Margin	\$1,935
Total Stockholders' Equity	\$5,878
Total Liabilities	\$12,247

289. In commenting on the Company’s performance for the quarter Michael Dell stated, “Customers and investors get best value over time from companies like Dell that are growing and financially very healthy. . . . [T]he market should insist on both, and it’s a credit to our teams and a better way of doing business that we’re consistently meeting those expectations.” The Q3 2004 Earnings Release also reported that Dell “anticipates its fourth-quarter shipments will be up more than 25 percent year-over-year, and again outpace the rest of the industry. Dell expects revenue of \$11.5 billion, an increase of 18 percent, and earnings per share of 28 cents, up 22 percent.”

290. In commenting on Dell’s performance for the quarter the Q3 2004 Earnings Release stated:

Third-quarter operating expenses were 9.6 percent of revenue, equaling a company record. Despite sharp industry price competition and slower than expected declines in component costs, Dell's operating profit was 8.6 percent of revenue for the second straight quarter. In dollar terms, operating income was \$912 million, up 20 percent from a year ago.

Dell generated \$1.1 billion in cash from operations in the quarter. Total cash and investments at the end of the period was \$11.0 billion, *another company record*.

(emphasis added).

291. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

292. The Q3 2004 Earnings Release also touted Dell's growth by stating: "Asia-Pacific and Japan led the company's regional growth with a 35-percent increase, nearly three times the combined rate of other companies."

293. Defendants knew, or recklessly disregarded, that the above statements concerning Dell's operations in Japan were materially false and misleading and/or omitted material information about Dell's use of fictitious transactions with its Japanese business. As admitted in Dell's restatement, "[Dell's internal] investigation determined that almost all of the transactions

of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions.”

2. Third Quarter 2004 Earnings Conference Call

294. On November 13, 2003, Dell held a conference call to discuss third quarter FY 2004 results (“Q3 2004 Earnings Call”). On the Q3 2004 Earnings Call, Defendant Rollins falsely and misleadingly stated: “[W]e really were trying to balance out our profitability with growth. . . . *I think it’s quite possible we could have had more – more unit growth in the quarter, but in an area where it would . . . hurt our overall profitability. So I think we’re pretty disciplined* and, again, focused on the things that are most important to us, which would be the Enterprise product area where growth is very good.” (emphasis added).

295. Defendants knew, or recklessly disregarded, that the above statements concerning Dell’s financial results and performance were false and misleading when made because Dell’s reported results were based on misstated net revenue, operating income, net income and gross margin figures. As admitted by Dell’s restatement, the Company improperly recognized revenue throughout the Class Period and used “accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means.” As a result of the Company’s fraudulent revenue recognition practices, its reported stockholders’ equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, “our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements.” The foregoing

statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

3. Third Quarter 2004 10-Q

296. On December 15, 2003, Dell filed its Form 10-Q for the quarter ended October 31, 2003 ("Q3 2004 10-Q"). The Q3 2004 10-Q repeated the following false and misleading financial information from the Company's Q3 2004 Earnings Release:

	In Millions of Dollars (except per share data)
Net Revenue	10,622
Operating Income	\$912
Net Income	\$677
Gross Margin	\$1,935
Total Stockholders' Equity	\$5,878
Total Liabilities	\$12,247

297. Commenting on Dell's performance for the quarter, the Q3 2004 10-Q stated:

During the third quarter of fiscal 2004, Dell's year-over-year performance continued to outpace the industry. Year-over-year net unit shipments increased 22% during the third quarter as Dell increased its worldwide market share by 1.4 points and maintained its position as the world's No. 1 supplier of personal computing systems with 17.1% market share. Net revenue increased 16% year-over-year to \$10.6 billion during the quarter with operating expenses remaining at a record low 9.6% of net revenue. During the third quarter, Dell continued its focus on maximizing operating dollars by achieving record operating profits and net income of \$912 million and \$677 million, respectively. Dell also delivered strong liquidity with cash flows from operations of \$2.6 billion during the nine months ended October 31, 2003 and ended the quarter with record cash, cash equivalents, and investments of \$11.0 billion. Dell's low-cost structure and efficient direct-to-customer model have enabled the company to consistently achieve year-over-year market share growth while maximizing operating profitability.

298. In terms of Dell's net revenues for the quarter, the Q3 2004 10-Q stated, "Net revenue was \$10.6 billion for the third quarter of fiscal 2004, an increase of \$1.5 billion from the same quarter last year. Net revenue increased to \$29.9 billion for the nine months ended October 31, 2003, from \$25.7 billion for the nine months ended November 1, 2002." The Company also

stated the following about its reported gross margin figure, "Gross margin as a percentage of net revenue remained at 18.2% during the third quarter of fiscal 2004, as compared the third quarter of fiscal 2003. Gross margin was 18.2% for the nine months ended October 31, 2003 and 17.8% during the same period last year. The year-over-year improvement for the nine months ended October 31, 2003 was primarily driven by Dell's cost savings initiatives."

299. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

300. The Q3 2004 10-Q stated the following about Dell's financial statements' adherence to GAAP:

The accompanying unaudited condensed consolidated financial statements of Dell Inc. ("Dell") should be read in conjunction with the consolidated financial statements and notes thereto filed with the U.S. Securities and Exchange Commission (the "SEC") in Dell's Annual Report on Form 10-K for the fiscal year ended January 31, 2003. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to present fairly the financial position of Dell and its

consolidated subsidiaries as of October 31, 2003 and January 31, 2003; the results of their operations for the three and nine months ended October 31, 2003 and November 1, 2002; and cash flows for the nine months ended October 31, 2003 and November 1, 2002.

301. Defendants knew, or recklessly disregarded, that Dell's statements concerning Dell's adherence to GAAP were false and misleading when made because, as described above, Dell failed to adhere to its stated revenue recognition policies and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." Moreover, Dell's restatement admits that the Company did not follow GAAP when reporting its financial results during the Class Period.

302. The Q3 2004 10-Q contained the following false and misleading information concerning warranties:

NOTE 5 — AGGREGATE PRODUCT WARRANTY LIABILITY

Changes in Dell's aggregate product warranty liability for the nine months ended October 31, 2003 are presented in the following table:

	Nine Months Ended October 31, 2003
	(in millions)
Aggregate liability at beginning of period	\$ 1,309
Cost accrued for standard warranties and separately priced extended warranty and service contracts issued during the period	1,007
Obligations honored during the period	(726)
Aggregate liability at end of period	\$ 1,590

303. Defendants knew, or recklessly disregarded, that warranty figures were misstated because, as described above, Dell accelerated the recognition of at least some deferred revenue from extended warranties and under-accrued costs associated with basic warranties in violation of GAAP.

304. Dell also stated the following about the Company's controls:

The management of Dell, with the participation of Dell's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Dell's disclosure

controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Dell's disclosure controls and procedures are effective in enabling Dell to record, process, summarize, and report information required to be included in Dell's periodic SEC filings within the required time period.

In addition, the management of Dell, with the participation of Dell's Chief Executive Officer and Chief Financial Officer, has evaluated whether any change in Dell's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the period covered by this Report. Based on that evaluation, Dell's Chief Executive Officer and Chief Financial Officer have concluded that there has been no change in Dell's internal control over financial reporting during the period covered by this Report that has materially affected, or is reasonably likely to materially affect, Dell's internal control over financial reporting.

305. The Defendants knew, or recklessly disregarded, that the foregoing statements regarding the effectiveness of Dell's controls were materially false and misleading when made. As admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting.

306. The Q3 2004 10-Q also included signed certifications from Michael Dell and Schneider stating:

1. I have reviewed this Quarterly Report on Form 10-Q of Dell Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

307. Michael Dell and Schneider also filed certifications pursuant to 18 U.S.C. § 1350 stating, "that (a) Dell's Quarterly Report on Form 10-Q for the quarter ended August 1, 2003, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (b) information

contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Dell.”

308. Michael Dell and Schneider knew, or recklessly disregarded, that the statements contained in their signed certifications filed with the Q3 2004 10-Q were materially false and misleading when made because, as admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting “adjustments” in order “to compensate for operational shortfalls.” In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell’s reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting. Additionally, Michael Dell and Schneider’s Section 1350 certifications were false because Dell has itself declared, “our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements.” The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

H. Fourth Quarter (For The Quarter Ended January 30, 2004)

1. Fourth Quarter 2004 Earnings Release

309. On February 12, 2004, Dell issued an earnings release announcing its financial results for the quarter ended January 30, 2004 (the “Q4 2004 Earnings Release”). The Q4 2004 Earnings Release, which was filed with the SEC as an exhibit to Form 8-K, stated that “Dell’s fiscal fourth-quarter 2004 was its best operating period ever. The company achieved record product shipments, revenue, operating and net income, and earnings per share.” It also contained

the following false and misleading financial information relating to the Company's fourth quarter results:

	In Millions of Dollars (except per share data)
Net Revenue	11,512
Operating Income	\$981
Net Income	\$749
Earnings Per Share	\$.29
Gross Margin	\$2,091
Stockholders' Equity	\$6,280
Total Liabilities	\$13,031

310. Defendant Rollins stated the following about Dell's performance for the quarter:

"Dell is alone in simultaneously providing customers great value, growing faster than the industry and earning a compelling profit for investors. . . . Doing that requires a high-quality, low-cost business model and great discipline. We have both."

311. The Q4 2004 Earnings Release further stated:

Dell's profitability was up strongly from a year ago, both in absolute terms and as a percent of revenue. Fourth-quarter operating income was \$981 million, or 8.5 percent of revenue.

* * *

Mr. Rollins said Dell expects first-quarter fiscal-2005 product shipments to rise more than 20 percent, ahead of anticipated industry growth. The resulting company volume should produce quarterly revenue of \$11.2 billion, up about 17 percent from the prior year, and earnings per share of 28 cents, up 22 percent.

312. Defendants knew, or recklessly disregarded, that the above statements concerning Dell's financial results and performance were false and misleading when made because Dell's reported results were based on misstated net revenue, operating income, net income, earnings per share and gross margin figures. As admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a

result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

2. Fourth Quarter 2004 Earnings Conference Call

313. On February 12, 2004, Dell held a conference call to discuss fourth quarter FY 2004 earnings ("Q4 2004 Earnings Call"). On the Q4 2004 Earnings Call, Defendant Schneider stated: "Our fourth quarter results cap a year of impressive performance in a market where competitors continued to operate without profits. In the quarter we posted profitable share gains while making substantial progress against our strategic growth initiatives." Schneider further stated: "What is certain is that our strategy to drive for profitable growth and extend further into the enterprise has proven successful and is the correct strategy to drive long-term value."

314. Defendants knew, or recklessly disregarded, that the above statements concerning Dell's financial results and performance were false and misleading when made because Dell's reported results were based on misstated net revenue, operating income, net income, earnings per share and gross margin figures. As admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the

interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements.”

The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon. Finally, the Defendants concealed that Dell’s growth strategy depended on continuing the fraudulent activity which led to the misstatement of its financial reports.

3. 10-K for the Year Ended January 30, 2004

315. On April 12, 2004, Dell filed its Form 10-K for the year ended January 30, 2004 (“2004 10-K”). The 2004 10-K, which was signed by, *inter alia*, Michael Dell and Schneider, contained the following false and misleading financial information for the 2004 fiscal year:

	In Millions of Dollars (except per share data)
Net Revenue	\$41,444
Operating Income	\$3,544
Net Income	\$2,645
Earning per Share (diluted)	\$1.01
Gross Margin	\$7,552
Total Stockholder Equity	\$6,280
Total Liabilities	\$13,031

316. The 2004 10-K also falsely and misleadingly stated:

Dell is the low-cost leader. Dell’s highly efficient supply chain management and manufacturing organization, efficient direct-to-customer model, and concentration on standards-based technologies allow Dell to maintain the lowest cost structure in the industry and pass on those savings to its customers. Additionally, Dell’s focus on cost control during fiscal 2004 resulted in the lowest operating expense (measured as a percent of net revenue) in Dell’s history and the lowest among its major competitors during the year. Dell’s relentless focus on reducing its costs allows it to consistently provide customers with a superior value.

317. In discussing the Company’s performance for the year, the 2004 10-K falsely and misleadingly stated:

During fiscal 2004, Dell reinforced its position as the world’s No. 1 supplier of personal computer systems as its performance continued to outpace the industry.

During the year, Dell maintained its focus on standards-based technologies and extending its capabilities further into the enterprise by utilizing its direct-to-customer model to drive down costs while achieving profitable market share growth. Year-over-year net unit shipments increased 26% during fiscal 2004, led by strong growth in Asia Pacific-Japan, U.S. Consumer, and Europe. Dell increased its worldwide market share by almost 2 points during the calendar year and captured the number one market share position at 16.7%. *Net revenue increased 17% to \$41.4 billion during fiscal 2004 with operating expenses reaching a record low 9.7% of net revenue. Dell's focus on maximizing operating income dollars resulted in record operating profits and net income of \$3.5 billion and \$2.6 billion, respectively. Dell also delivered strong liquidity with operating cash flow of \$3.7 billion.*

(emphasis added).

318. The 2004 10-K stated the following about Dell's reported revenue figures:

During fiscal 2004, Dell's strategy and execution translated to the No. 1 worldwide market share position for the calendar year. Dell produced net revenue of \$41.4 billion in fiscal 2004, compared to \$35.4 billion in fiscal 2003, and \$31.2 billion in fiscal 2002. The year-over-year increase in net revenue during fiscal 2004 and 2003 was driven by strong unit growth across all regions and product lines. Dell's fiscal 2004 growth continued to exceed market growth as consolidated net unit shipments increased 26% year-over-year while industry growth for the calendar year was only 9% (excluding Dell). During fiscal 2003, Dell produced net unit growth of 21%, while the industry declined 1% for the calendar year (excluding Dell). Dell's strong unit growth during fiscal 2004 was partially offset by lower average selling prices, which can be primarily attributed to the increased competitive pricing environment and moderate declines in component costs.

(emphasis added).

319. In commenting on Dell's reported gross margin, the 2004 10-K stated:

Gross margin as a percentage of net revenue continued to improve in fiscal 2004 to 18.2%, compared to 17.9% in fiscal 2003 and 17.7% in fiscal 2002. The year-over-year improvement for fiscal 2004 and 2003 was primarily driven by Dell's continued cost savings initiatives. As part of management's focus on improving margins, Dell remains committed to reducing costs through four primary cost reduction initiatives: manufacturing costs, warranty costs, structural or design costs, and overhead or operating expenses. These cost savings initiatives also include providing certain customer technical support and back-office functions from cost effective locations as well as driving more efficient processes and tools globally. Dell's general practice is to aggressively pass on declines in costs to its customers in order to add customer value while increasing market share. Dell currently expects the component cost and competitive pricing environment will

continue to be challenging. However, management believes that the strength of Dell's direct-to-customer business model, as well as its strong liquidity position, makes Dell better positioned than its competitors to continue profitable market share growth in any business climate.

320. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income, earnings per share and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

321. The 2004 10-K also reassured investors that Dell's financial statements complied with GAAP by falsely stating, "Dell prepares its financial statements in conformity with generally accepted accounting principles in the United States of America ('GAAP')."

322. Defendants knew, or recklessly disregarded, that the Company's statements concerning Dell's adherence to GAAP were false and misleading when made because, as described above, Dell failed to adhere to its stated revenue recognition policies and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." Moreover, Dell's restatement admits that the Company did not follow GAAP when reporting its financial results during the Class Period.

323. The 2004 10-K also touted Dell's performance in Asia stating, "Dell's strongest segment revenue growth rate during fiscal 2004 was in Asia Pacific-Japan at 26%."

324. Defendants knew, or recklessly disregarded, that the above statements concerning Dell's operations in Japan were materially false and misleading and/or omitted material information about Dell's use of fictitious transactions with its Japanese business. As admitted in Dell's restatement, "[Dell's internal] investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions."

325. In discussing Dell's revenue recognition policies, the 2004 10-K stated:

Revenue Recognition — Dell frequently enters into sales arrangements with customers that contain multiple elements or deliverables such as hardware, software, peripherals, and services. ***Judgments and estimates are critical to ensure compliance with GAAP. These judgments relate to the allocation of the proceeds received from an arrangement to the multiple elements, the determination of whether any undelivered elements are essential to the functionality of the delivered elements, and the appropriate timing of revenue recognition.*** Dell offers extended warranty and service contracts to customers that extend and/or enhance the technical support, parts, and labor coverage offered as part of the base warranty included with the product. ***Revenue from extended warranty and service contracts, for which Dell is obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract or when the service is completed.*** Revenue from sales of third-party extended warranty and service contracts, for which Dell is not obligated to perform, is recognized on a net basis at the time of sale.

(emphasis added).

326. Dell continued its discussion of its revenue recognition practices, stating:

Revenue Recognition — Net revenue includes sales of hardware, software and peripherals, and services (including extended service contracts and professional services). These products and services are sold either separately or as part of a multiple-element arrangement. Dell allocates fees from multiple-element arrangements to the elements based on the relative fair value of each element,

which is generally based on the relative list price of each element. For sales of extended warranties with a separate contract price, Dell defers revenue equal to the separately stated price. Revenue associated with undelivered elements is deferred and recorded when delivery occurs. Product revenue is recognized, net of an allowance for estimated returns, when both title and risk of loss transfer to the customer, provided that no significant obligations remain. Revenue from extended warranty and service contracts, for which Dell is obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract or when the service is completed. Revenue from sales of third-party extended warranty and service contracts, for which Dell is not obligated to perform, is recognized on a net basis at the time of sale. During fiscal 2004 Dell adopted Emerging Issues Task Force ("EITF") Issue 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. The consensus addresses not only when and how an arrangement involving multiple deliverables should be divided into separate units of accounting but also how the arrangement's consideration should be allocated among separate units. EITF 00-21 did not have a material impact on Dell's consolidated results of operations or financial position.

Dell defers the cost of product revenue for in-transit shipments until the goods are delivered and revenue is recognized. In-transit product shipments to customers totaled \$387 million and \$423 million as of January 30, 2004 and January 31, 2003, respectively, and are included in other current assets on Dell's consolidated statement of financial position.

327. Defendants knew, or recklessly disregarded, that the Company's statements concerning Dell's revenue recognition practices were false and misleading when made because, as described above, Dell failed to adhere to its stated revenue recognition policies and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." Moreover, Dell's restatement admits that the Company did not follow GAAP when reporting its financial results during the Class Period.

328. The 2004 10-K stated the following about Dell's policies in terms of accounting for warranties:

Warranty — Dell records warranty liabilities at the time of sale for the estimated costs that may be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product sold and country in which Dell does business, but generally includes technical support, repair parts, labor, and a period ranging from 90 days to three years. *Factors that affect Dell's warranty liability include the number of installed units currently under*

warranty, historical and anticipated rates of warranty claims on those units, and cost per claim to satisfy Dell's warranty obligation. The anticipated rate of warranty claims is the primary factor impacting Dell's estimated warranty obligation. The other factors are relatively insignificant because the average remaining aggregate warranty period of the covered installed base is approximately 20 months, repair parts are generally already in stock or available at pre-determined prices, and labor rates are generally arranged at pre-established amounts with service providers. Warranty claims are relatively predictable based on historical experience of failure rates. Each quarter, Dell reevaluates its estimates to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

(emphasis added).

329. The 2004 10-K also provides the following warranty-related information:

Aggregate Deferred Revenue and Warranty Liability — Revenue from extended warranty and service contracts, for which Dell is obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract or when the service is completed. Dell records warranty liabilities at the time of sale for the estimated costs that may be incurred under its basic limited warranty. Changes in Dell's aggregate deferred revenue and warranty liability (basic and extended warranties) are presented in the following table:

	Fiscal Year Ended	
	January 30, 2004	January 31, 2003
	(in millions)	
Aggregate deferred revenue and warranty liability at beginning of period	\$2,042	\$1,447
Revenue deferred and costs accrued for new warranties	2,547	2,137
Service obligations honored	(983)	(868)
Amortization of deferred revenue	(912)	(674)
Aggregate deferred revenue and warranty liability at end of period	\$2,694	\$2,042
Current portion	\$1,333	\$1,034
Non-current portion	1,361	1,008
Aggregate deferred revenue and warranty liability at end of period	\$2,694	\$2,042

330. Defendants knew, or recklessly disregarded, that these statements were false and misleading when made because, as described above, Dell accelerated the recognition of at least some deferred revenue from extended warranties and under-accrued costs associated with basic warranties in violation of GAAP.

331. In commenting on Dell's controls, the 2004 10-K stated:

The management of Dell, with the participation of Dell's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Dell's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Dell's disclosure controls and procedures are effective in enabling Dell to record, process, summarize, and report information required to be included

in Dell's periodic SEC filings within the required time period.

In addition, the management of Dell, with the participation of Dell's Chief Executive Officer and Chief Financial Officer, has evaluated whether any change in Dell's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during Dell's fourth fiscal quarter. Based on that evaluation, Dell's Chief Executive Officer and Chief Financial Officer have concluded that there has been no change in Dell's internal control over financial reporting during the fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, Dell's internal control over financial reporting.

332. The Defendants knew, or recklessly disregarded, that the foregoing statements regarding Dell's controls were materially false and misleading when made. As admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting.

333. The 2004 10-K also included signed certifications from Michael Dell and Schneider which stated:

1. I have reviewed this Annual Report on Form 10-K of Dell Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

334. The 2004 10-K also included signed certifications from Michael Dell and Schneider pursuant to 18 U.S.C. §1350 which certified that: "(a) Dell's Annual Report on Form 10-K for the fiscal year ended January 30, 2004, as filed with the Securities and Exchange Commission (the 'Report'), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Dell."

335. Michael Dell and Schneider knew, or recklessly disregarded, that the statements contained in their signed certifications filed with the 2004 10-K were materially false and

misleading when made because, as admitted by Dell in its restatement, the Company failed to maintain effective controls which led to, *inter alia*, Dell employees using accounting "adjustments" in order "to compensate for operational shortfalls." In its restatement, Dell also admitted that its control deficiencies led to: a failure by the Company to consistently adhere to GAAP; a failure by the Company to employ persons with appropriate accounting knowledge given the complexity of Dell's reporting requirements; and a failure by the Company to maintain effective controls over period-ending reporting. Additionally, Michael Dell and Schneider's Section 1350 certifications were false because Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

336. The 2004 10-K also included a signed "clean audit" opinion from PwC which stated:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Dell Inc. and its subsidiaries at January 30, 2004 and January 31, 2003, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 30, 2004, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index, presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of Dell's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. *We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.* An audit includes examining, on a test basis, evidence

supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

(emphasis added).

337. PwC knew, or recklessly disregarded, that its statements in the 2004 10-K were materially false and misleading. As evidenced by Dell's restatement, the financial reports covered by PwC's foregoing "clean audit" opinion were materially false, required restating and, as cautioned by Dell, "should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." Moreover, as explained *infra* at Section X, PwC's audit of Dell failed to comply with GAAS.

I. First Quarter 2005 (For The Quarter Ended April 30, 2004)

1. First Quarter 2005 Earnings Release

338. On May 13, 2004, Dell issued an earnings release announcing its financial results for the quarter ended April 30, 2004 (the "Q1 2005 Earnings Release"). The Q1 2005 Earnings Release, which was filed as an exhibit to Form 8-K, contained the following false and misleading financial information relating to the Company's first quarter results:

	In Millions of Dollars (except per share data)
Net Revenue	\$11,540
Operating Income	\$966
Net Income	\$731
Gross Margin	\$2,073
Stockholders' Equity	\$6,105
Total Liabilities	\$13,604

339. In touting the Company's results and its ability to meet guidance estimates quarter after quarter, the Q1 2005 Earnings Release stated:

[E]xceeded its own robust worldwide growth expectations while achieving record revenue during fiscal first-quarter 2005.

Product shipments for the period ended April 30 were up 25 percent from the same quarter a year ago; volumes for the rest of the industry increased 14 percent. Dell growth was 38 percent in Asia-Pacific and Japan, where the company's share ranked No. 2 for the first time. Shipments in Europe, the Middle East and Africa increased 37 percent.

First-quarter company revenue was up 21 percent to \$11.5 billion, higher than Dell's previous guidance. *The company has now met or exceeded guidance to investors for 13 straight quarters.* Net earnings were \$731 million, or 28 cents per share, 22 percent higher than a year ago. Dell's growth in both product shipments and net income has surpassed 20 percent for seven consecutive quarters.

(emphasis added).

340. The Q1 2005 Earnings Release also included the following statements from Defendant Rollins: "In our industry, only Dell simultaneously creates great customer value, rapid growth and solid profitability. . . . Others sometimes do one or two of those things. Our global team and our shareholders insist on all three."

341. The Q1 2005 Earnings Release further reported that, "First-quarter operating income was \$966 million, up 19 percent from a year ago despite higher-than-expected costs for random-access memory late in the quarter. Operating expenses as a percent of revenue were 9.6 percent, matching a company low and better than 9.8 percent last year."

342. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of

Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements.” The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon. Moreover, the Company was only able to meet guidance figures because it manipulated its reported figures as described herein.

343. In discussing Dell’s operations in Japan, the Q1 2005 Earnings Release stated:

Dell server volumes in Asia-Pacific and Japan increased 33 percent, almost twice the average of other companies. Dell Japan ranked No. 1 in shipments of standards-based servers for the first time.

* * *

Dell again scored highly in a major Japanese customer-satisfaction survey, ranking first in after-sale service among personal-computer companies for the fourth straight year in research conducted by a leading business publication.

344. Defendants knew, or recklessly disregarded, that the above statements concerning Dell’s operations in Japan were materially false and misleading and/or omitted material information about Dell’s use of fictitious transactions with its Japanese business. As admitted in Dell’s restatement, “[Dell’s internal] investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions.”

2. First Quarter 2005 Earnings Call

345. On May 27, 2004, Dell held a conference call to discuss first quarter FY 2005 earnings (“Q1 2005 Earnings Call”). On the Q1 2005 Earnings Call, Defendant Schneider stated: “During Q1, we continued to execute on our strategic growth initiatives. We delivered

profitable balanced growth in each of our businesses, despite a challenging competitive and component cost environment.”

346. Schneider further stated: “Despite this cost pressure, we stayed true to our strategy of optimizing growth and profitability. We intensified our focus on unit revenue growth to offset the impact of these cost increases, and delivered on our EPS target. With 11.5 billion in revenues, we delivered 28 cents in earnings per share. An increase of 22% year-over-year.”

347. Additionally, Defendant Rollins stated:

I want to briefly touch on our strategy in the current environment and revisit how Dell growth initiatives support our goal to drive strategic and profitable growth in new and existing profit pools. Q1 was another impressive quarter for Dell. We again hit our financial targets representing the 13th consecutive quarter of delivering on our guidance to investors. Over the last seven quarters, our units of net income have grown by over 20% year-over-year.

348. Rollins further stated:

In closing, the Dell model has proven itself advantaged in any environment, even versus the competitors that subsidized their business model. It provides us the flexibility to drive for market share while still achieving profitability targets. In the enterprise, we continue to tap into the accelerating growth with additional solutions such as those announced with Oracle, SAP and EMC.

349. At the same time, Rollins also stated: “By effectively balancing share growth and profitability, Dell is continuing to balance our growth opportunities such as enterprise products, enhanced services and printers while also ramping our business rapidly outside of the U.S.”

350. Defendants knew, or recklessly disregarded, that the above statements concerning Dell’s financial results and performance were false and misleading when made because Dell’s reported results were based on misstated net revenue, operating income, net income and gross margin figures. As admitted by Dell’s restatement, the Company improperly recognized revenue throughout the Class Period and used “accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means.” As a result of the Company’s

fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon. Finally, the Defendants concealed that Dell's growth strategy depended on continuing the fraudulent activity which led to the misstatement of its financial reports.

3. The 2005 Proxy

351. On May 27, 2004, Dell filed its proxy statement for 2005 with the SEC ("2005 Proxy"), in which the Company stated:

The Board of Directors believes that adherence to sound corporate governance policies and practices is important in ensuring that Dell is governed and managed with the highest standards of responsibility, ethics and integrity and in the best interests of its stockholders. The Board maintains a set of Corporate Governance Principles, which provide an effective corporate governance framework for Dell, intending to reflect a set of core values that provide the foundation for Dell's governance and management systems and its interactions with others.

352. Also, in a statement opposing a shareholder proposal, Dell stated "Management of Dell is committed to the highest standards of corporate governance and fully supports all efforts to provide investors with the highest degree of integrity, quality and transparency in financial reporting and disclosures."

353. Defendants knew, or recklessly disregarded, that the above statements concerning Dell's purported adherence to sound corporate governance policies and practices were false and misleading when made because, rather than operating the Company in the best interest of stockholders, Dell manipulated its accounting to compensate for earning shortfalls as described above. Moreover, these accounting manipulations were carried out by Dell to hide the true state

of the Company from investors and so the Company's "quarterly performance adjustments could be met."

4. First Quarter 2005 10-Q

354. On June 9, 2004, Dell filed its 10-Q for the quarter ended April 30, 2004 ("Q1 2005 10-Q"). The Q1 2005 10-Q repeated the following false and misleading information from Dell's Q1 2005 Earnings Report:

	In Millions of Dollars (except per share data)
Net Revenue	\$11,540
Operating Income	\$966
Net Income	\$731
Gross Margin	\$2,073
Total Stockholders' Equity	\$6,105
Total Liabilities	\$13,604

355. In discussing Dell's net revenue figures, the Q1 2005 10-Q falsely and misleadingly stated:

Net revenue was a record \$11.5 billion for the first quarter of fiscal 2005, an increase of \$2.0 billion or 21% from the same quarter last year. The year-over-year increase was led by strong net unit growth across all regions and product lines.

* * *

Dell's year-over-year net unit growth continued to outpace the market with consolidated net unit shipments increasing 25% during the first quarter while the industry increased only 17% for the calendar quarter. . . . ***Despite the continued competitive pricing environment, Dell has outperformed the market by executing on its strategy of gaining profitable market share.*** Dell continues to execute on its international growth strategy with revenue outside the U.S. increasing to 40% of consolidated net revenue during three months ended April 30, 2004, compared to 38% during the same quarter last year.

(emphasis added).

356. The Q1 2005 10-Q stated the following about Dell's reported gross margin figures:

Gross margin as a percentage of net revenue was 18.0% during the first quarter of fiscal 2005, as compared to 18.3% during the first quarter of fiscal 2004. The year-over-year decline was primarily due to the continued competitive pricing environment and short-term increases in certain component costs during the quarter.

357. Defendants knew, or recklessly disregarded, that Dell's reported net revenue, operating income, net income and gross margin figures were misstated because, as admitted by Dell's restatement, the Company improperly recognized revenue throughout the Class Period and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." As a result of the Company's fraudulent revenue recognition practices, its reported stockholders' equity and total liabilities figures were also misstated. Moreover, as Dell has itself declared, "our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements." The foregoing statements are included in the periods Dell now admits are inaccurate and should no longer be relied upon.

358. Dell's Q1 2005 10-Q reassured investors that its financial reports adhered to GAAP by stating:

The accompanying unaudited condensed consolidated financial statements of Dell Inc. ("Dell") should be read in conjunction with the consolidated financial statements and notes thereto filed with the U.S. Securities and Exchange Commission (the "SEC") in Dell's Annual Report on Form 10-K for the fiscal year ended January 30, 2004. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to present fairly the financial position of Dell and its consolidated subsidiaries as of April 30, 2004 and January 30, 2004 and the results of its operations and cash flows for the three months ended April 30, 2004 and May 2, 2003.

359. Defendants knew, or recklessly disregarded, that the Company's statements concerning Dell's adherence to GAAP were false and misleading when made because, as described above, Dell failed to adhere to its stated revenue recognition policies and used "accounting adjustments . . . to compensate for earnings shortfalls that could not be closed through operational means." Moreover, Dell's restatement admits that the Company did not follow GAAP when reporting its financial results during the Class Period.

360. In terms of its Asia/Japan operations, Dell stated:

Asia Pacific-Japan — Dell generated year-over-year market share gains of approximately 1.6 share points to 8.3% market share for the calendar quarter and the No. 2 share position in Asia Pacific-Japan. Dell shipped one million units for the first time in any fiscal quarter with net unit growth of 38% in a market that increased only 15% for the calendar quarter. Net revenue growth during the three months ended April 30, 2004 was broad-based and increased year-over-year by 31%. This increase included combined year-over-year net revenue growth of 26% in the focus countries of Japan and China during the first quarter.

361. Defendants also knew, or recklessly disregarded, that the above statements concerning Dell's operations in Japan were materially false and misleading and/or omitted material information about Dell's use of fictitious transactions with its Japanese business. As admitted in Dell's restatement, "[Dell's internal] investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions."

362. The Q1 2005 10-Q contained the following false and misleading information concerning warranties:

NOTE 5 — AGGREGATE DEFERRED REVENUE AND WARRANTY LIABILITY

Dell records warranty liabilities at the time of sale for the estimated costs that may be incurred under its basic limited warranty. Revenue from extended warranty and service contracts, for which Dell is obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract or when the service is completed. Changes in Dell's aggregate deferred revenue and warranty liability are presented in the following table:

	Three Months Ended	
	April 30, 2004	May 2, 2003
	(in millions)	
Aggregate deferred revenue and warranty liability, at beginning of period	\$2,694	\$2,042
Revenue deferred and costs accrued for new warranties	683	601
Service obligations honored	(275)	(232)
Amortization of deferred revenue	(288)	(201)
Aggregate deferred revenue and warranty liability, at end of period	\$2,814	\$2,210

363. Defendants knew, or recklessly disregarded, that these statements were false and misleading when made because, as described above, Dell accelerated the recognition of at least some deferred revenue from extended warranties and under-accrued costs associated with basic warranties in violation of GAAP.

364. Dell also stated the following about the Company's controls:

The management of Dell, with the participation of Dell's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Dell's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Dell's disclosure controls and procedures are effective in enabling Dell to record, process, summarize, and report information required to be included in Dell's periodic SEC filings within the required time period.

In addition, the management of Dell, with the participation of Dell's Chief Executive Officer and Chief Financial Officer, has evaluated whether any change in Dell's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the period covered by this Report. Based on that evaluation, Dell's Chief Executive Officer and Chief Financial Officer have concluded that there has been no change in Dell's internal control over financial reporting during the period covered by this Report that has materially affected, or is reasonably likely to materially affect, Dell's internal control over financial reporting.

365. The Defendants knew, or recklessly disregarded, that the foregoing statements regarding the effectiveness of Dell's controls were materially false and misleading when made. As admitted by Dell in its restatement, the Company failed to maintain effective controls which